

## CHAPTER 6

### BUDGETING

#### Fiscal Year

The fiscal year of cities, counties, and other political subdivisions of the state shall begin July 1 and end the following June 30. For the purposes of this section, the term political subdivision includes school districts (8.51).

#### Budget Estimates

AEA boards shall prepare an annual budget estimating income and expenditures for programs and services as provided in sections 273.1-273.9 and chapter 256B within the limits of funds provided under section 256B9 and chapter 257 (273.3(12)).

The budget documents and supporting material shall reflect the account code structure of the *Uniform Financial Accounting* manual which can be obtained at

<http://www.state.ia.us/educate/publications/manuals.html>.

AEAs are required to budget, account for, and report each and every expenditure. Interagency transactions including personnel sharing and other sales of services are shown gross and shall not be shown net. If the agencies bartered for services rather than issuing payments, the barter is reported as if payment had been made.

Thirty percent of the budget of an area for media services shall be expended for media resource material which shall only be used for the purchase or replacement of materials required in subsection 273.6(1) (257.36(2)). This will include:

- a. A materials lending library, consistent of print and nonprint materials.
- b. A professional library.
- c. A curriculum laboratory, including textbooks and correlated print and audiovisual materials.
- d. Capability for production of media-oriented instructional materials.
- e. Qualified media personnel.
- f. Appropriate physical facilities.
- g. Other materials and equipment deemed necessary by the DE (273.6(1)).

The administrative expenditures shall not exceed five percent of the general fund. Annually the board of directors shall certify to the Department of Education the amounts of the AEA's expenditures and its general fund. Administrative expenditures means expenditures for executive administration (273.13). The director of the Department of Education shall approve the salaries of AEA administrators (256.9(30)).

The AEA board shall include in the budget submitted each year such sums as it deems necessary to carry on its reorganization work under chapter 275 (275.7).

IPERS contributions must come from the same fund as the employee's salary and must be budgeted (OAG #76-9-27).

#### Public Hearing and Notice

The board shall give notice of a public hearing on the proposed budget by publication in an official county newspaper in each county in the territory of the AEA in which the principal place of business of a school district that is a part for the AEA is located. The notice shall specify the date, which shall be not later than March 1 of each year, the time and the location of the public hearing (273.3(12)).

#### Certification to and Review by the State Board

The proposed budget as approved by the board shall then be submitted to the state board of education, on forms provided by the department, no later than March 15 preceding the next fiscal year for approval. The state board shall review the proposed budget of each AEA and shall before April 1, either grant approval or return the budget without approval with comments of the state board included. An unapproved budget shall be resubmitted to the state board for final approval not later than April 15. For the fiscal year beginning July 1, 1999, and each succeeding fiscal year the state board shall give final approval only to budgets submitted by AEAs accredited by the state board or that have been given conditional accreditation by the state board (273.3(12)).

### **Amendments**

Budget estimates adopted, certified, and approved may be amended as the need arises:

1. to permit appropriation and expenditure of unexpended cash balances on hand at the close of the preceding fiscal year and which cash balances had not been estimated and appropriated for expenditure during the fiscal year of the budget sought to be amended,
2. to permit appropriation and expenditure of amounts of cash anticipated to be available during the year from sources other than controlled funding that had not been estimated and appropriated for expenditures during the fiscal year of the budget sought to be amended,
3. if state or federal action substantially alters the financial structure of a fiscal year to the extent an amendment is requested by the Department of Education, or
4. if any program is modified to the extent the approved budget does not adequately reflect the program budget for the fiscal year. Contact the appropriate Department of Education personnel for assistance in determining this criteria.

Amendments to budget estimates may be considered and adopted at any time during the fiscal year covered by the budget sought to be amended by filing the amendments using the same budget procedures as used for the original budget. A budget may be amended at any time on or after July 1 of the fiscal year to which the budget applies, but not later than May 31 of the fiscal year.

### **School Budget Review Committee**

An AEA budget review procedures is established for the school budget review committee (SBRC). The SBRC shall meet and hold hearings each year to review unusual circumstances of AEAs, either upon the committee's motion or upon the request of an AEA. The committee may grant supplemental aid to the AEA from funds appropriated to the Department of Education for AEA budget review purposes, or an amount may be added to the AEA special education support services allowable growth for districts in an area or an additional amount may be added to district cost for media services or educational services for all districts in an area for the budget year either on a temporary or permanent basis, or both (257.31(1)).

Unusual circumstances shall include but are not limited to the following:

- a. An unusual increase or decrease in enrollment of children requiring special education or unusual need for additional moneys for special education support services.
- b. Unusual need for additional moneys for media services.
- c. Unusual need for additional moneys for educational services.
- d. Unusual costs for building repair, building maintenance, or removal of environmental hazards.
- e. Participation by the AEA in telecommunications, electronic, and technological development with school districts, and related staff development programs (257.31(1)).

Failure by an AEA to provide information or appear before the SBRC as requested for the accomplishment of review or hearing constitutes justification for the committee to instruct the Department of Revenue and Finance to withhold payments for the AEA until the committee's inquiries are satisfied completely (257.32(4)).

### **Fund Summaries**

General Fund is used to account for all transactions except those that are required by law to be accounted for in any other fund.

Special Revenue Trust Funds are special revenue funds used to account for all financial transactions from trusts received when the principal and interest from the trust may be used for purposes that support the agency's programs.

Capital Projects Funds are established when an AEA initiates a capital project, or receives grants or other funds for capital projects. These capital projects are those related to the acquisition of construction of major capital facilities other than those financed by proprietary funds or trust funds. When a capital project for facilities is lawfully initiated in any existing fund, the moneys for that project are transferred to a capital project fund by an operating transfer from the fund authorized to initiate the acquisition or construction, and the payment of the project's expenditures should be made from the capital project fund established to account for the project. If a capital project is to be initiated with borrowed funds, the loan proceeds must first be deposited into the fund authorized to issue that debt and then be transferred to the capital projects fund through an operating transfer.

Debt Service Fund is established when an AEA issues authorized general long-term indebtedness except those financed by proprietary or trust funds. The purpose of the fund is to pay interest as it becomes due and the amount necessary to pay the principal when due on bonds or other authorized indebtedness issued by the district, and to make payments required under a loan, lease-purchase agreement, or other evidence of indebtedness authorized by Code. Money available to service this debt shall be transferred to the debt service fund through an operating transfer from the fund which issued the original indebtedness and the payment of the debt shall be made from the debt service fund.

Permanent Funds are established to account for all financial transactions of funds received when only the interest earned may be used for purposes that support the agency's programs. Permanent funds are not budgeted.

Other Enterprise Funds are proprietary funds used to account for all financial transactions related to operations that are financed and operated in a manner similar to private business where the intent is that the costs of providing goods or services on a continuing basis are financed or recovered primarily through user charges. Examples would be public swimming pools, preschools, automotive repair shops, farms, home construction projects, and purchasing cooperatives.

Internal Service Funds are proprietary funds used to account for all financial transactions related to operations of agency activities that provide goods or services to the AEA, other AEAs or districts, or other governments, on a cost-reimbursement basis and where the AEA is the largest user of the goods or services. If the AEA is not the largest user of the good or services, the activity is accounted for in an Enterprise fund. Internal Service Funds are not budgeted.

Private Purpose Trust Funds are established to account for all financial transactions of trusts received when the principal and income benefit individuals, private organizations, or other governments instead of supporting the agency's programs. Examples would be scholarship funds. Private Purpose Trust Funds are not budgeted.

Pension Trust Funds are established to account for all financial transactions when money is held by the AEA as trustee or custodian for an employee pension plan. Only one district has established a local pension plan. Pension Trust Funds are not budgeted.

Agency Funds are established to account for all financial transactions when money and property are received and administered by the AEA in the capacity of an agent. Agency funds consist of assets and liabilities, but do not have revenues, expenditures, or fund equity. Agency funds are not owned by the AEA and are not budgeted.

### **Basis of Budgeting**

School districts and AEAs are required to conform to generally accepted accounting principles (GAAP) for accounting and reporting commencing with the school year beginning July 1 1996 (257.31(4)). AEAs are also required to operate and budget on the GAAP basis.

Legal provisions may conflict with GAAP. Statement 1 of GAAFR says, "Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary....Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional records to permit GAAP-based reporting."

When GAAP provides more than one method for accounting for a financial transaction, the department of education may determine which method will be used for school districts and AEAs to ensure consistency in reporting as required by Iowa Code (256.9(18)).

The "basis of budgeting" refers to the point in time when revenues, expenditures or expenses (as appropriate), and the related assets and liabilities are recognized in the accounts and reported in the financial statements. In other words, the "basis of budgeting" determines the timing with which the budgeting system recognizes transactions.

Some of the advantages of GAAP basis include:

- providing a comprehensive measurement of financial position and results of operations;
- providing accountability for individual assets within the accounting system at the earliest appropriate date;
- providing the potential for cost accounting analyses and comparisons;
- promoting comparability from period to period;
- reducing management's ability to control cash flows in such a way as to produce financial statements that will seem to present financial position and results of operations in either a more optimistic or more pessimistic context, depending upon management's particular preference at the end of any given fiscal year.

## **Building an Operating Budget**

The primary purpose of a budget is to translate the educational priorities of the AEA into financial terms. It should be a well-conceived plan for financing the educational support activities of the area for a given period of time.

The first step in building a budget is to assess the educational needs of the school community. The provisions in the Code of Iowa regarding budget limitations automatically signify the necessity to arrange the needs in the order of priority. Within the limitations, the priorities can be scheduled to the extent funds are available. These limitations may restrict the desires of those fitting the plan to the financing available.

Building a new budget is a continuous process, and should involve long term strategic planning, analysis and evaluation by the board, administrator, staff, local districts and students, and the community.

The preparation of the budget involves three distinct plans: the educational plan, the expenditure plan and the financing plan.

### **The Educational Plan**

The AEAs exist to support school districts. The education of children is the primary public purpose of a school district, therefore, the first consideration should be to provide support for a sound educational plan. This plan should give a picture of the entire school program and will indicate the involvement of personnel and materials which will be needed to carry out such a program. The educational philosophy, mission, goals, and policies of the board should be expressed in sufficient detail to justify the expenditure plan which, when limited to the financial plan, will fulfill the priorities as established.

### **The Expenditure Plan**

This plan should contain an analysis of the cost of the proposed educational plan with both long-range and immediate goals outlined in such a way as to show continuity. Different groupings of expenditures should be available for various information needs of management. This can be accomplished through *Uniform Financial Accounting* (UFA), which is a Management Information System (MIS).

### **The Financial Plan**

This plan should contain an analysis of the anticipated revenues and other financing resources which will be available to finance the expenditure plan.

## **Budgeting Philosophies**

### **Program-Based Budgeting**

Program-Based Budgeting is a technique in which expenditure plans are formulated and resources appropriated on the basis of the expected services to be performed by organizational units. A line-item approach is used for object or source detail, organized by function or program and by organizational units such as high school or elementary school.

Program, Planning, and Budgeting Systems (PPBS) is a type of program-based budgeting. It emphasizes a systematic analysis of the goals and objectives of the school district, identification of viable alternative methods of achieving these objectives, estimation of the costs of each alternative, estimation of the effectiveness of each alternative, decision making based on the greatest effectiveness for the resources applied in achieving the stated objectives, and a follow-up evaluation of the alternatives selected for future year decisions.

### **Zero-Based Budgeting**

Zero-Based Budgeting is a technique which prepares several service level alternatives based on funding levels for both existing and new program initiatives. Resources are appropriated to the various programs based on the priority of these alternatives. It involves justification of each item in the entire budget during each budgeting cycle as well as consideration of the consequences of not funding a specified program.

### **Activity-Based Budgeting**

Activity-Based Budgeting is a technique originally developed to assist for-profit entities remain competitive in global markets. It is designed to give management information to continuously improve performance and reduce costs. It is a continuous process involving strategic planning and value analysis. It identifies support costs and their relationship to products or outcomes, and determines the best index to count or measure the activity rather than using a single cost accounting measure. This gives a more accurate costing of school district services and is particularly appropriate in a time when finances are tight and choices of activities must be made.

The first step to implement activity-based management is to define the mission, establish a strategic plan, determine activities of the district and assign responsibility. The next step is to have all personnel chart their daily work activities according to the key (major) activities defined in the first step. Activities which fit the listed district activities are all considered value-added activities, and accordingly, non-value added activities are those which don't fit any of the activities listed. This should continue for at least three months to identify cyclic work. In the next step, accounting personnel cost out each activity based on the mission of the entity to determine the actual cost of conducting that activity. They will consider direct costs as well as indirect costs, and costs in terms of number of personnel and use of personnel time. Management then evaluates non-value-added activities to choose which if any to abandon. Management also evaluates the value-added activities to determine if the benefits derived from the activity justify the cost. The goal of personnel is to focus all work toward the strategic plan and the mission and to identify methods to reduce the cost of conducting each activity and to continuously improve service.

Businesses which have implemented activity based management find it very useful in evaluating the real costs of activities and in focusing the entire organization on the mission.

### **Curriculum-Based Budgeting**

Curriculum-Based Budgeting is a technique which has been developed to effectively communicate the needs and purposes of the school district to its internal and external publics. It incorporates many of the techniques from earlier budgeting systems. It involves developing an overall mission and strategic plan individual to the school district and based on the needs identified through input from all of the publics. The plan includes specific goals and objectives. Frequently these objectives are organized around the curriculum of the school district. Each objective is costed, and then all of the objectives are prioritized. Potential resources are determined. The objectives, costs, and resources are analyzed and adjusted until a satisfactory balance is achieved. Each year the results of each objective and its cost are analyzed to determine effectiveness, to reevaluate priorities, and to provide management information.

Iowa Administrative Code requires that the AEA budget support its Comprehensive School Improvement Plan, therefore activity-based or curriculum-based budgeting may be the most appropriate budgeting concept for AEAs.

## **Summary of the School Foundation Formula Program**

The authorized budget refers to the financing of school programs in the general fund.

### **Foundation State Aid**

For a budget year, each school district in the state is entitled to receive foundation aid, in an amount per pupil equal to the difference between the amount per pupil of foundation property tax in the district, and the combined foundation base per pupil or the combined district cost per pupil, whichever is less. However, if the amount of foundation aid received by a school district under chapter 257 is less than three hundred dollars per pupil, the district is entitled to receive three hundred dollars per pupil unless the receipt of three hundred dollars per pupil plus the per pupil amount raised by the foundation property tax exceeds the combined district cost per pupil of the district for the budget year. In that case, the district is entitled to receive an amount per pupil equal to the difference between the per pupil amount raised by the foundation property tax for the budget year and the combined district cost per pupil for the budget year (257.1(2)).

### **Foundation Property Tax**

Except as provided in subsections 257.3(2) and (3), a school district shall cause to be levied each year, for the school general fund, a foundation property tax equal to five dollars and forty cents per thousand dollars of assessed valuation on all taxable property in the district (257.3(1)).

Notwithstanding subsection 1, a reorganized school district shall cause a foundation property tax of four dollars and forty cents per thousand dollars of assessed valuation to be levied on all taxable property which, in the year preceding a reorganization, was within a school district affected by the reorganization or dissolution. In years preceding the

reorganization or dissolution, the school district affected must have had a certified enrollment of fewer than 600 in order for the four dollar and forty cent levy to apply. In succeeding years, the foundation property tax levy on that portion shall be increased to the rate of four dollars and ninety cents per thousand dollars of assessed valuation the first succeeding year, five dollars and fifteen cents per thousand dollars of assessed valuation the second succeeding year, and five dollars and forty cents per thousand dollars of assessed valuation the third succeeding year and each year thereafter (257.3(2)).

### **Additional Property Tax**

A school district shall cause an additional property tax to be levied each year. The rate of the additional property tax levy in a school district shall be determined by the department of management and shall be calculated to raise the difference between the combined district cost for the budget year and the sum of the products of the regular program foundation base per pupil times the weighted enrollment in the district and the special education support services foundation base per pupil times the special education support services weighted enrollment in the district (257.4(1)).

### **Budget Enrollment**

Budget enrollment for a budget year is a district's actual enrollment taken in the base year (fiscal year prior to the budget year). Actual enrollment is determined on the third Friday in September each year (257.6(1), (2), (4)).

The department of management shall adjust the enrollment of the school district for the audit year based upon reports filed under section 11.6, and shall further adjust the budget of the second year succeeding the audit year for the property tax and state aid portions of the reported differences in enrollments for the year succeeding the audit year (257.6).

### **Weighted Enrollment**

Weighted enrollment is the budget enrollment plus the district's additional enrollment because of special education calculated on November 1 of the base year plus additional pupils added due to the application of the supplementary weighting. Weighted enrollment for special education support services costs is equal to the weighted enrollment minus the additional pupils added due to the application of the supplementary weighting (257.6(5)).

### **Regular Program District Cost Per Pupil**

The regular program district cost per pupil for each school district for a budget year is the regular program district cost per pupil for the base year plus the regular program allowable growth for the budget year except in the following situation: If the regular program district cost per pupil of a school district for the budget year exceeds one hundred five percent of the regular program state cost per pupil for the budget year and the state percent of growth for the budget year is greater than two percent, the regular program district cost per pupil for the budget year for that district shall be reduced to one hundred five percent of the regular program state cost per pupil for the budget year. However, if the difference between the regular program district cost per pupil for the budget year and the regular program state cost per pupil for the budget year is greater than an amount equal to two percent multiplied by the regular program state cost per pupil for the base year, the regular program district cost per pupil for the budget year shall be reduced by the amount equal to two percent multiplied by the regular program state cost per pupil for the base year (257.10(2)(b)).

### **Combined District Cost**

Combined district cost is the sum of the regular program district cost per pupil multiplied by the weighted enrollment and the special education support services district cost, plus the additional district cost allocated to the district to fund media services and educational services provided through the AEA. A school district may increase its district cost for the budget year to the extent that an excess tax levy is authorized by the school budget review committee (SBRC) (257.10(8)).

### **Authorized Expenditures**

School districts are subject to chapter 24. The authorized expenditures of a school district during a base year shall not exceed the lesser of the budget for that year certified under section 24.17 [for the general fund] plus any allowable amendments permitted, or the authorized budget, which is the sum of the combined district cost for that year, the actual miscellaneous income received for that year, and the actual unspent balance from the preceding year (257.7(1)).

## **Miscellaneous Income**

Miscellaneous income means the receipts deposited to the general fund of the school district but not including any of the following:

- a. Foundation aid.
- b. Revenue obtained from the foundation property tax.
- c. Revenue obtained from the additional property tax (257.2(9)).

Miscellaneous income also does not include cash reserve levy receipts.

## **Unspent Balance**

Unspent balance means the authorized expenditures of the preceding year less actual expenditures of the preceding year. Expenditure means the total amounts paid from the general fund of a school district (257.2(8)).

## **Additional Funding Sources**

### **SBRC Grants**

If a district has unusual circumstances, creating an unusual need for additional funds, the SBRC may grant supplemental aid to the district from any funds appropriated to the department of education for the use of the SBRC for the purposes in subsection 257.31(5), and such aid shall be miscellaneous income and shall not be included in district cost (257.31(5)).

### **Modified Allowable Growth**

If a district has unusual circumstances, creating an unusual need for additional funds, including but not limited to the following circumstances, the SBRC may establish a modified allowable growth for the district by increasing its allowable growth:

- a. Any unusual increase or decrease in enrollment.
- b. Unusual natural disasters.
- c. Unusual initial staffing problems.
- d. The closing of a nonpublic school, wholly or in part.
- e. Substantial reduction in miscellaneous income due to circumstances beyond the control of the district.
- f. Unusual necessity for additional funds to permit continuance of a course or program which provides substantial benefit to pupils.
- g. Unusual need for a new course or program which will provide substantial benefit to pupils, if the district establishes the need and the amount of necessary increased cost.
- h. Unusual need for additional funds for special education or compensatory education programs.
- i. Year-round or substantially year-round attendance programs which apply toward graduation requirements, including but not limited to trimester or four-quarter programs. Enrollment in such programs shall be adjusted to reflect equivalency to normal school year attendance.
- j. Unusual need to continue providing a program or other special assistance to non-English speaking pupils after the expiration of the three-year period specified in section 280.4.
- k. Circumstances caused by unusual demographic characteristics.
- l. Any unique problems of school districts (257.31(5)).

The SBRC shall establish a modified allowable growth for a district by increasing its allowable growth and certify the same to the department of management:

1. When the district submits evidence that it requires additional funding for removal, management, or abatement of environmental hazards due to a state or federal requirement. Environmental hazards shall include but are not limited to the presence of asbestos, radon, or the presence of any other hazardous material dangerous to health and safety. The district shall include a budget for the actual cost of the project that may include the costs of inspection, reinspection, sampling, analysis, assessment, response actions, operations and maintenance, training, periodic surveillance, developing of management plans, recordkeeping requirements, and encapsulation or removal of the hazardous material (257.31(6)).
2. When the district requests it to fund the special education deficit (257.31(14)(b)).

## **Budget Review**

The school budget review committee may recommend the revision of any rules, regulations, directives, or forms relating to school district budgeting and accounting, confer with local school boards or their representatives and make recommendations relating to any budgeting or accounting matters, and direct the director of the department of

education or the director of the department of management to make studies and investigations of school costs in any school district (257.31(1)).

The school budget review committee shall review the proposed budget and certified budget of each school district, and may make recommendations. The committee may make decisions affecting budgets to the extent provided in chapter 257 (257.31(3)).

The committee shall review the recommendations of the director of the department of education relating to the special education weighting plan, and shall establish a weighting plan for each school year pursuant to section 256B.9, and report the plan to the director of the department of education (257.31(12)).

As soon as possible following June 30 of the base year, the school budget review committee shall determine for each school district the balance of funds, whether positive or negative, raised for special education instruction programs under the special education weighting plan established in section 256B.9. The committee shall certify the balance of funds for each school district to the director of the department of management (257.31(14)).

Annually the school budget review committee shall review the amount of property tax levied by each school district for the cash reserve authorized in section 298.10. If in the committee's judgment, the amount of a district's cash reserve levy is unreasonably high, the committee shall instruct the director of the department of management to reduce that district's tax levy computed under section 257.4 for the following budget year by the amount the cash reserve levy is deemed excessive. A reduction in a district's property tax levy for a budget year under this subsection does not affect the district's authorized budget (257.31(15)).

The school budget review committee shall review the proposed budget and certified budget of each school district and shall handle exceeding authorized budgets (negative unspent balances) as follows:

- a. A listing of the unspent balance as well as the unexpended cash balance of each school district for each fiscal year shall be reviewed by the committee.
- b. The amount of any negative unspent balance shall be automatically subtracted from the authorized budget of a given school district during the subsequent fiscal year.
- c. The state board of education shall be notified of the school districts with negative unspent balances each year. The notification shall include the amount the school district exceeded its authorized budget.
- d. The board members of districts with negative unspent balances shall be notified of the amount the school district exceeded its authorized budget. The school districts shall inform the SBRC at its next official hearing of the plans that are being implemented to avoid future negative unspent balances (IAC 289—6.5(2)).

The school budget review committee shall review the proposed budget and certified budget of each school district and shall handle excessive cash reserve levies as follows:

- a. Annually the school budget review committee shall review the amount of property tax levied by each school district for the cash reserve authorized in Iowa Code section 298.10.
- b. If in the committee's judgment, the amount of a district's cash reserve levy is unreasonably high, the committee shall instruct the director of the department of management to reduce that school district's tax levy computed under Iowa Code section 257.4 for the following budget year by the amount the cash reserve levy is deemed excessive.
- c. Notwithstanding any other action approved by the committee, cash reserve levies for the budget year shall not exceed 25 percent (25%) of the general fund expenditures for the year previous to the base year minus the general fund balance for the year previous to the base year. But expenditures and fund balance are calculated on the same basis, cash or GAAP, that the district uses for budgeting.
- d. A reduction in a district's property tax levy for a budget year for cash reserve shall not affect the school district's authorized budget (IAC 289—6.5(3)).